

Metropolitan Transportation Commission Programming and Allocations Committee

January 14, 2009

Item Number 4b

Proposition 1B Suspension: Bay Area Projects at Risk

Subject: Proposition 1B Suspension – Bay Area Projects at Risk

Background: In December 2008, the Pooled Money Investment Board (PMIB) suspended reimbursement for all Proposition 1B funded projects. This suspension freezes roughly \$1 billion in bond funds to over 90 projects in the Bay Area. This memo and attachments outline the projects immediately at risk and provide some options to avoid halting projects already under construction.

Proposition 1B, approved by California voters in November 2006, authorized the issuance of approximately \$20 billion of general obligation bonds for transportation purposes. Through various discretionary and formulaic programs, the Bay Area has secured roughly \$5.5 billion of the total bond amount to date.

Summary: The Proposition 1B suspension is due to the state's current budget crisis and the lack of demand in the municipal bond markets. Depending on the outcome of state budget negotiations and broader economic conditions, Proposition 1B reimbursements could be delayed for several months. If state bond funds began to flow by September 2009, most projects listed in *Attachment A* would still be able to move forward, albeit subject to delays and potential cost increases.

Based on staff contact with numerous transit agencies, the Proposition 1B suspension will delay vehicle procurements, transit amenities, and capital expansion projects. Project development work for the San Francisco Muni Central Subway, eBART and other projects may need to be suspended or slowed down to meet available cash flow. Agencies without alternative fund sources to backfill the bond funds may be forced to delay or suspend procurements or projects.

However, the highway projects already awarded, listed in *Attachment B* and mapped in *Attachment C*, are subject to more immediate risk, including contract termination, suspension of work, delays due to loss of the construction season, and significant cost increases due to contractor penalties. The state has not committed any funding to address cost increases due to the suspension of Proposition 1B. Staff has developed four concepts to consider in addressing this situation.

- 1) **Renew Limited PMIB Reimbursement:** The Pooled Money Investment Board is scheduled to meet again on Friday, January 16th, to consider whether to permit a limited amount of reimbursements to take place for projects already under construction.
- 2) **Request Contractors Accept Delayed Payment:** Caltrans is currently reviewing projects currently under construction and projects that have awarded contracts. Based on project cash flow needs, Caltrans will request that contractors adjust payment schedules to accommodate delayed reimbursements.

However, this option would result in cost increases due to delays and interest owed to contractors.

- 3) Advance Other Funds Committed to Projects:** In most cases, projects at risk are funded with multiple fund sources including: local sales tax funds, bridge tolls, federal funds, non-bond state funds, and other sources. Sponsors are reviewing whether these funds could be accelerated allowing the bond funds to become the “last in” fund source.
- 4) Short-term Construction Note Sale:** Staff from BATA and other major transportation debt issuers in California are discussing with Caltrans the possibility of investing in short-term notes that would be issued by the state as a means of providing “bridge funding” to Proposition 1B projects already underway or scheduled for award in the next several months.

Recommendation: For information and discussion.

Attachments: Bay Area Highway Projects Affected by PMIA Suspension: Short Term Impacts
List of Bay Area Projects Affected by PMIA Suspension